

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: MIDAMERICAN ENERGY COMPANY	DOCKET NO. SPU-04-31
--	----------------------

**ORDER APPROVING LONG-TERM GAS PROCUREMENT PLAN AND
GRANTING REQUEST FOR CONFIDENTIALITY**

(Issued December 16, 2004)

LONG-TERM GAS PROCUREMENT PLAN

On November 5, 2004, MidAmerican Energy Company filed an application with the Utilities Board (Board) requesting approval of a long-term natural gas procurement program (LGPP) and the creation of an associated regulatory asset. MidAmerican states that the LGPP is being proposed in response to increased natural gas commodity price volatility during the winter heating season. MidAmerican points out that its current strategy includes injecting gas into storage, purchasing physical supply on the daily market, and utilizing various financial instruments and hedging techniques. MidAmerican states that although its current strategy has been successful in reducing price volatility for a given winter heating season, natural gas customers are still experiencing price fluctuations from one heating season to the next due to macroeconomic factors.

The LGPP is an effort by MidAmerican to moderate commodity price volatility to reduce the effect of longer-term demand and supply on customers. MidAmerican

states that its customers will benefit from a program that hedges a portion of the commodity cost charged to customers through the purchased gas adjustment (PGA) for a number of years, rather than just a single winter heating season. MidAmerican believes the strategy will be advantageous to PGA customers because it will result in a greater degree of certainty and stability in natural gas prices for a substantial number of years.

The proposal includes creation of a regulatory asset. MidAmerican proposes to use the following accounting procedure for the regulatory asset from November 1 through April 30 each year during the term of the LGPP.

1. On a monthly basis, a journal entry will be recorded for the difference between the amount charged through the PGA and the actual prices for the hedged quantities of gas. This difference will be recorded as a Deferred Gas Cost Regulatory Asset on the General Ledger. MidAmerican is assuming that the summer hedged volumes included in the LGPP are injected into storage at cost, with the PGA customer receiving the benefit during the storage withdrawal season (November 1 through April 30). Therefore, the above entry will include an amount for the difference between the amount charged through the PGA and the actual price of the storage gas.

2. The balance of the Regulatory Asset Account will be increased by the monthly return factor. The return will be recognized on the Regulatory Asset Account based on the previous month's balance in the account.

MidAmerican explains that during the initial years of the LGPP, the balance in "Account 182-Regulatory Asset" would continue to grow as the gas price charged to the PGA customers will be less than the actual price MidAmerican will pay for the gas. Thereafter, MidAmerican would collect more from the PGA customers than it will be paying for the gas; the extra charge will cover the amortization of the regulatory asset. This difference would then be deducted from "Account 182-Regulatory Asset." The balance in "Account 182-Regulatory Asset" will not be zero until March 31, 2019. The deferred gas costs recorded in "Account 805.1-Purchased Gas Cost Adjustments" will be included as part of the monthly gas costs in the PGA reconciliation.

MidAmerican requests the Board approve the LGPP, including the creation of the regulatory asset and the return to be earned on the balance. MidAmerican states that the implementation of this hedging strategy for a portion of the PGA customers' supply needs, combined with the proposed pricing mechanism, will provide a more certain and stable price of natural gas for MidAmerican's PGA customers.

MidAmerican indicates in the application that it would solicit bids to secure the market hedge for the LGPP immediately upon Board approval. MidAmerican states it will not accept a bid unless it meets the criteria of the plan and is acceptable to the Consumer Advocate Division of the Department of Justice (Consumer Advocate). MidAmerican indicates it will not include any calculation relating to the LGPP in the existing Incentive Gas Supply Procurement Program (IGSPP). MidAmerican represents that it has discussed the proposal with Consumer Advocate and

Consumer Advocate supports the application, including the creation of the regulatory asset and return.

At the request of the Board, MidAmerican provided a hypothetical demonstration of how the LGPP would function. On December 13, 2004, MidAmerican filed an amendment to the LGPP based upon the proposals it had received and updated natural gas market conditions.

The first revision to the LGPP involves the proposed term of the LGPP. Initially, MidAmerican proposed that the LGPP end on October 31, 2018, with the regulatory asset account balance reduced to zero on March 31, 2019. MidAmerican is now proposing that the term of the LGPP extend through March 31, 2019. This extension would allow MidAmerican to implement the market hedge strategy throughout the entire 2018-2019 winter heating season. MidAmerican still expects the regulatory asset account balance to be reduced to zero no later than March 31, 2019.

The second revision increases the quantity of natural gas hedged from 100,000 MMBtu on a monthly basis applicable to the 2004-2005 winter heating season (as originally proposed) to 300,000 MMBtu on a monthly basis beginning on and after January 1, 2005. With the increase in the first year monthly hedged volumes, MidAmerican anticipates that the cumulative monthly aggregate of hedged volumes of 600,000 MMBtu would be achieved as early as 2005-2006 winter heating season. Initially, MidAmerican had proposed that the 600,000 MMBtu level be reached in year four of the plan, but MidAmerican now believes that PGA customers

will realize a greater reduction in the cost of gas in the early years of the LGPP by accelerating the volume of natural gas hedged in the first two years. MidAmerican states that Consumer Advocate has been informed of the amendments and Consumer Advocate supports the amendments.

BOARD DISCUSSION

The Board has reviewed and considered the LGPP and the supporting information supplied by MidAmerican. MidAmerican states that the goal of the LGPP is to provide some stability and reduce volatility of natural gas prices over the next 14 years. The Board and regulated local distribution companies (LDC) such as MidAmerican have been concerned with limiting price volatility and stabilizing natural gas prices for Iowa customers over the past several years.

In 2003, the Board issued a white paper that warned of the potential for higher natural gas bills due to increased price volatility and cold weather during the winter of 2003-2004. The Board indicated that the conditions were in place for natural gas customers to be seriously affected. In September 2004 the Board issued an update that recognized that even though the extreme conditions anticipated did not occur in the winter of 2003-2004, natural gas prices continued to be very high compared to past levels. In the update, the Board once again warned that the factors are still in place that could cause very high prices for the 2004-2005 winter heating season.

Market forces, such as demand for natural gas, a finite supply of natural gas, and the weather, could all place upward pressure on prices. To address these

concerns, LDCs have used storage and hedging techniques to stabilize natural gas prices paid by customers. In its white paper, the Board noted that storage and hedges have been used to address short-term price volatility, rather than long-term trends.

Thus, the LGPP is a unique proposal that attempts to address price volatility over a longer period than the usual hedging strategies. The proposal will cap gas prices for 300,000 MMBtu monthly during this winter heating season. The capped price should result in a reduction in the recovered cost of gas for January through March 2005. In conjunction with the cap of prices for the 300,000 MMBtu monthly this winter, MidAmerican will hedge 600,000 MMBtu monthly, approximately 15 percent of total volumes, over the next 13 years at a price below the cap.

The difference between the capped price and the price of gas without the cap will be paid by MidAmerican and then booked as a regulatory asset. MidAmerican will be repaid by PGA customers over the remaining term of the plan. MidAmerican will earn a return on the balance of the regulatory asset until the balance reaches zero.

The Board recognizes that the LGPP is an attempt by MidAmerican to respond to the increasing volatility and price increases in the natural gas market over a longer period than can be addressed by the usual hedging strategies. The Board considers the LGPP to be an innovative approach that is worth pursuing. The Board supports reasonable LDC actions that help to stabilize prices. Even though the LGPP only

applies to 15 percent of total volumes, it should provide a base to support more short-term actions MidAmerican can take to reduce prices and price volatility.

The regulatory asset created by the deferral of costs will earn a return of 8.654 percent on the balance. The Board finds this interest rate to be reasonable based upon the length of the plan and relatively low interest rates in effect at this time.

Based upon the considerations discussed above, the Board will approve the LGPP including the establishment of a regulatory asset. In approving the LGPP, the Board is also relying on the review and support of the plan by Consumer Advocate. Consumer Advocate supported the LGPP and will have to agree to the final terms of any bid before it is accepted by MidAmerican.

The Board is approving the LGPP even though there are some unanswered questions about the overall effect on customer bills of the plan and whether the benefits will ultimately outweigh the cost of the plan. This proposal involves estimates of future gas prices, so some uncertainty is unavoidable. The Board is approving the plan subject to investigation and complaint, as it does with all PGA filings. Unforeseen circumstances may require the Board to review the LGPP over the next 14 years.

APPLICATION FOR CONFIDENTIAL TREATMENT

On December 13, 2004, MidAmerican filed a request for confidential treatment of the information supplied by MidAmerican in the meeting held December 13, 2004. MidAmerican states that the information should be treated as confidential under Iowa

Code §§ 22.7(6) (2003), the same as the information granted confidential treatment in this docket on November 23, 2004, and December 9, 2004. MidAmerican attached an affidavit of a corporate officer to support the request.

Iowa Code § 22.7(6) provides confidential treatment for public records which are reports to government agencies and which, if released, would give advantage to competitors and serve no public purpose. The Board finds the information provided concerning the LGPP illustrating how the proposed regulatory asset would operate is the type of information that would provide an advantage to competitors and release of which would serve no public purpose. Release of the information would reveal MidAmerican's hedging strategy for a number of years and could prevent MidAmerican from providing the most cost-effective rates to its customers.

The Board will hold the information provided by MidAmerican at the December 13, 2004, meeting confidential under the provisions of Iowa Code § 22.7(6).

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Long-Term Gas Procurement Plan filed by MidAmerican Energy Company is approved.
2. MidAmerican Energy Company is authorized to establish a Deferred Gas Cost Regulatory Asset and to earn a return on the balance as described in the Long-Term Gas Procurement Plan approved in this order.

3. The "Application for Confidential Order" filed by MidAmerican Energy Company on December 13, 2004, is granted under the provisions of Iowa Code § 22.7(6).

4. The information shall be held confidential by the Board subject to the provisions of 199 IAC 1.9(8)"b"(3).

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 16th day of December, 2004.